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TREASURY FOR AHMED SAEED AND JONATHAN ROSE
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SUBJECT: Turkish Central Bank Governor Steps Out

SENSITIVE BUT UNCLASSIFIED

This message was coordinated with ConGen Istanbul.

¶1. (SBU) In an hour-plus press conference aired live on Turkey's cable news channels, Turkish viewers were treated to the sight of a firm, self-confident, independent new Central Bank governor. Durmus Yilmaz, who took office in May, had initially been criticized by local and international investors for having poor communication skills and questionable independence as a central banker from political pressure. Sensitive to the criticisms, he has so far shied away from the limelight that his predecessor, Sureyya Serdengecti basked in. But no such uncertainty was visible in his October 31 TV performance.

¶2. (SBU) Releasing the Bank's annual inflation report, Yilmaz was clear and definitive in warning about the importance of continued fiscal discipline in the pre-election period. He publicly took on the government, specifically criticizing the size of the recent civil service wage increase as inconsistent with a declining path for inflation, and generally expressing unhappiness with the 2007 budget package before parliament (both also IMF concerns). He said that if the Monetary Policy Committee saw inflationary pressures building, it would not hesitate to tighten monetary policy, even at the cost of a slowdown in growth.

¶3. (SBU) Also releasing a letter to the IMF and government as required by the new inflation-targeting regime to explain the Bank's success -- or lack of it -- in meeting inflation targets, the Governor described monetary policy targets for 2006 and 2007. He said that end-year 2006 inflation would be in a range of 9.2-10.6%, versus the 5% target. He expected the rising inflation trend to reverse by the end of 2006. For 2007, he said the MPC would retain its 4% target for the sake of its credibility. He said the outcome would likely be in the 3.5-6.8% range. The Governor blamed higher energy costs as well as stickiness in services prices for the lapse in 2006, the effects of which will continue to be felt next year.

¶4. (SBU) Governor Yilmaz, flanked by vice governor Erdem Basci and his other deputies in a show of CBT unity, also called for continued structural and microeconomic reforms and noted the risks posed by a large current account deficit. He said the IMF program, along with the prospect of EU accession, were the two main anchors of economic stability. His remarks provoked a reaction from Finance Minister Unakitan, who said the Governor's remarks would not affect the Government's budget proposal.

¶5. (SBU) Comment: It is not clear how Yilmaz's confidence in front of a Turkish audience will translate to foreign investors, who have been the most skeptical about his abilities. His disastrous performances in June in London and New York are well-remembered. We

understand, however, that the Governor did a better job during investor meetings at the IMF/World Bank annual meetings in Singapore in September. Local financial analysts and press commentators respect the Governor's technical skills, and found the clarity and transparency in the press conference refreshing and reassuring. The Governor's English, while serviceable in one-on-one conversations, seems less effective in front of groups, and he will have to continue to look for ways to improve and compensate, perhaps in tag-team sessions with Economy Minister Babacan.

16. (SBU) Resources: The reports and letters described above are available in Turkish and soon in English on the CBT's website. Visit the "Turkish Economy" website for daily coverage of Turkey's economy: <http://www.osis.gov/state/posts/turkecon>.

WILSON